



OFFICE OF ILLINOIS STATE TREASURER

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Budget Impasse Projected to Cost \$31 Million in 2016

CHICAGO – The state of Illinois earned \$7.8 million less in investment income the first quarter of 2016 as a result of the budget impasse, Illinois Treasurer Michael Frerichs said today. That translates into projected missed earnings of \$31.2 million for 2016.

Threats of unplanned fund sweeps and the need to pay court-ordered bills required the treasurer's office to make short-term investments that prioritized cash availability rather than longer-term, higher-yielding investment opportunities.

"A budget is a spending plan. Without a spending plan, it is very difficult to know what money is needed for basic government operations and what money for normal investments," Frerichs said. "The law requires us to have money available to pay bills. The inability to adequately plan investments rips money out of the pockets of every person in our state, especially hurting those on the margins such as the poor, senior citizens, and children."

Metropolitan Family Services of Chicago is among the service providers that essentially has lent the state of Illinois money because the state has not paid its bills.

"By the end of FY16, Metropolitan will be owed \$2.6 million from the state of Illinois for contracted services that have not been paid. In order to keep core services open, we have been forced to tap our own credit and serve as involuntary lenders to Illinois. All year long, low-income families and not-for-profit providers have suffered, footing the bill for problems they did not create. The lack of a state budget is a structural failure that is damaging our economy, hurting thousands of people, and causing irreparable harm to communities served by organizations such as Metropolitan Family Services," said Taneka Jennings of Metropolitan Family Services.

"Our agency has already made the painful decision to discontinue Acute Community Services, Parents as Partners and All Our Kids programs. If payment is not received by June 30, 2016, we will be forced to close four additional programs – Community Integrated Living Arrangement (CILA), Mental Health Juvenile Justice, Safe from the Start, and our Southwest Side and North Side Healthy Families. More than 800 clients will lose services and 30 jobs will be lost."

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Illinois has been without a budget for nearly one year. This presents a number of cash management and investment challenges for the treasurer's office, which is responsible for managing the state's investment portfolio, ensuring the liquidity, safety and diversification of investments, and producing earnings at or above industry standards.

While Frerichs' office has increased the 30-day rate of return this year compared to last, the rate of increase has not kept pace with the overall market because of the move to a more cautious investment strategy as a result of the budget impasse.

The state increased its position in short-term, lower-yielding assets, such as overnight investments and money market funds, to ensure it had cash available in case of a multi-billion dollar fund sweep or another court-ordered increase in billings. This disruption of normal investment activities cost the state about \$2.6 million per month, which represents money that would have been potentially earned if the state maintained its position in higher-yielding, longer term investments such as treasuries and agency securities.

The analysis compares the state's overall asset allocation and term maturities between March 2015 and March 2016.

About Metropolitan Family Services

As one of Illinois' first chartered not-for-profits, Metropolitan Family Services is a beacon of hope the Chicago area has relied on since 1857. Since its inception, Metropolitan Family Services has stood for high quality programs, strong leadership, and responsible fiscal stewardship. From our leadership in rebuilding efforts after the Great Chicago Fire of 1871, to our advocacy in expanding service access through passage of the Social Security Act during the Great Depression, to a 54 percent expansion of our client base over the past five years, when new challenges arise, Metropolitan Family Services answers the call.

Each year, Metropolitan Family Services provides uplifting education, emotional wellness, economic stability and empowerment services to more than 68,000 people, employing nearly 900 staff through seven community centers and dozens of satellite locations in Chicago, suburban Cook and DuPage counties. We sustain the good work of our programs through more than \$5 million in annual private fundraising.

About the Illinois Treasurer

The Illinois Treasurer is the state's chief investment officer and Frerichs is a Certified Public Finance Officer. He protects consumers by encouraging savings plans for college or trade school, increasing financial education among all ages, and removing barriers to a secure retirement. As the state's Chief Investment Officer, he actively manages approximately \$25 billion. The portfolio includes \$13 billion in state funds, \$7 billion in college savings plans and \$5 billion on behalf of local and state governments. The investment approach is cautious to ensure the preservation of capital and returns \$28 to the state for every \$1 spent in operations. The Treasurer's Office predates Illinois incorporation in 1818. Voters in 1848 chose to make it an elected office.

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